CITY OF FRISCO, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Frisco, Texas ("City") was originally incorporated in 1908 and chartered on April 4, 1987, and is a municipal corporation incorporated under provisions of H.B. 901 of the Texas Legislature. The City operates under a Council-Manager form of government and provides such services as authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

The financial statements of the City have been prepared to conform with accounting principles generally accepted in the United States of America (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance. The more significant accounting and reporting policies and practices used by the City are described below.

A. Financial Statement Presentation

The basic financial statements are prepared in conformity with GASB Statement 34, which requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities, business-type activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both non-current assets and non-current liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements. Governmental fund financial statements continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The proprietary fund type financial statements are prepared using the accrual basis of accounting. Accordingly, the accounting and financial reporting of the City's funds are similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34. Statement No. 34 also requires supplementary information in Management's Discussion and Analysis, which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted and revised budgets for governmental funds with actual results.

B. Reporting Entity

The City is governed by an elected mayor and a six-member council. As required by GAAP, these financial statements present the City (the primary government) and the entities for which the City is considered to be financially accountable (component units). Discretely presented component units are reported in a separate column in the basic financial statements in order to emphasize that they are legally separate from the City.

The Frisco Economic Development Corporation (FEDC) serves all citizens of the City. Although legally separate from the City, the City Council appoints all of the members of its governing board. The FEDC provides marketing and economic development services to the City, and the City provides for custody and investment of FEDC assets, various administrative/personnel/legal services, and the majority of funding for the FEDC budget. The FEDC is presented as a discretely presented component unit.

The Frisco Community Development Corporation (FCDC) serves all citizens of the City. Although legally separate from the City, the City Council appoints all of the members of its governing board. The FCDC benefits the City and its citizens by developing resources to address recreational, cultural arts, senior citizen, and other related community development needs and the City provides for custody and investment of FCDC assets, various administrative services, and the majority of funding for the FCDC budget. The FCDC is presented as a discretely presented component unit.

The City of Frisco Charitable Foundation (CFCF) serves all citizens of the City. Although legally separate from the City, the City Council appoints all of the members of its governing board. The CFCF benefits the City and its citizens by developing resources to address recreational, cultural arts, senior citizen, and other related community development needs. The Foundation was established during fiscal year 2006 and is presented as a discretely presented component unit.

The FEDC, FCDC, and CFCF do not prepare separate financial statements. The financial statements of the City are formatted to allow the user to clearly distinguish between the primary government and its discretely presented component units.

C. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (General Government, Public Safety, Public Works, and Culture/Recreation) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, sales taxes, franchise taxes, intergovernmental revenues, and interest income).

Separate funds-based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of applicable fund category and for the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a separate column in the applicable fund financial statements.

D. <u>Measurement Focus and Basis of Accounting</u>

The government-wide financial statements and the proprietary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under-accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the obligation has matured and is due and payable shortly after year end.

GASB Interpretation 6 clarifies the application of modified accrual recognition of certain liabilities and expenditures in the governmental fund financial statements. Specifically, GASB Interpretation 6 indicates that liabilities for debt, compensated absences, claims and judgments, and special termination benefits are normally expected to be liquidated with expendable available financial resources and should be recognized as governmental fund liabilities and expenditures only to the extent that they mature each period. The most significant accounting and reporting policies of the City are described in the following notes to the financial statements.

Ad valorem, franchise, sales tax revenues and fines and forfeitures recorded in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund and Tax Increment Reinvestment Zone #1 are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measurable and available until cash is received. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met and amounts are considered measurable and available. Additionally, funds received in advance for which all eligibility requirements have not been met or for which amounts are not considered measurable and available are considered deferred revenue.

Proprietary fund statements of revenues, expenses, and changes in fund net assets present increases (e.g., revenues) and decreases (e.g., expenses) in net assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water and Sewer, and Environmental Services funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City of Frisco does not have internal service funds, which traditionally provide service primarily to other funds of the government. Nor does the City of Frisco have fiduciary funds.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

The following funds are used by the City of Frisco:

1. Governmental Funds:
   The focus of Governmental Fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:
   a. General Fund accounts for several of the City's primary services (Public Safety, Public Works, Culture & Recreation, General Government) and is the primary operating unit of the City.
   b. Tax Increment Reinvestment Zone #1 Fund accounts for revenue sources that are legally restricted to expenditure for special purposes within the zone.
   c. Capital Projects Fund accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.
   d. Debt Service Fund accounts for the accumulation of resources and payment of general obligation and certificate of obligation bond principal and interest from governmental resources.
   e. Other Governmental Funds is a summarization of all of the non-major governmental funds.

2. Proprietary Funds:
   The focus of Proprietary Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to private-sector businesses. The following is a description of the major Proprietary Funds of the City:
   a. Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the Fund include administration, operation and maintenance of the water and sewer system, and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for contractual obligation bonds when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.
   b. Environmental Services Fund accounts for the revenues received and operating expenses from the contracted trash collection service and the solid waste disposal contract with North Texas Municipal Water District for sanitation services within the City.

E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. Cash in all funds, excluding the City's payroll account, lockbox operations, police seizure accounts and economic development corporation account, is combined into one bank account in order to maximize investment opportunities. Although individual funds may experience temporary overdraft liabilities, a positive balance is maintained in combined cash.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

F. Inventories and Prepaid Items

Inventories of supplies are maintained at the City. These inventories are valued at cost using the first in/first out (FIFO) inventory method. The cost of inventories is recorded as expenditures/expenses when consumed rather than when purchased. Prepaid items are payments made by the City in the current fiscal year to provide services occurring in the subsequent fiscal year. A reservation for inventories and prepaid items is recognized in the governmental funds in the fund level financial statements to signify that a portion of fund balance is not available for other subsequent expenditures.

G. Interfund Transactions and Receivables and Payables

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. All legally authorized transfers are appropriately treated as transfers and are included in the changes in fund balance/net assets of both governmental and proprietary funds.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in proprietary fund financial statements.

All purchased capital assets are valued at cost where historical records are available or at an estimated cost where no historical records exist. In the case of the initial capitalization of infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical costs of these assets through back trending (i.e., estimating the current replacement costs of the infrastructure to be capitalized and using an appropriate price-level index to deflate the costs to the acquisition year or estimated acquisition year). Contributed assets are recorded at estimated fair market value at the time received. The City considers the asset as received when all requirements have been met by the developer including providing the City with affidavits of value. Public domain (infrastructure) assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems have been recorded at estimated historical cost. The government defines capital assets as assets with an initial individual cost of $5,000 or more and an estimated useful life greater than one year. Outlays for capital assets and improvements are capitalized as the projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Buildings	20-25 years
Improvements other than Buildings	20-30 years
Vehicles	3-15 years
Machinery & Equipment	3-20 years

The costs of normal maintenance and repairs that do not materially add to the value of the asset or significantly extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related assets, as applicable.

I. <u>Compensated Absences</u>

The City allows employees to accumulate earned but unused vacation benefits to a maximum of 240 hours. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights. Upon termination, the City pays to employees with over one year of service, up to a maximum of 240 hours of vacation, and up to 240 hours of sick leave. Vacation and sick leave in excess of the 240 hour maximum is not paid upon termination. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured and typically, in prior years the general fund has liquidated the liability.

J. <u>Federal and State Grants</u>

Grants and shared revenues are generally accounted for within the Grants Fund if funding is for a governmental fund type. Federal grants include several police grants and Community Development Block Grants, which are accounted for within the Grants Fund. Various state grants are also included in the Grants Fund. Proprietary fund grants are accounted for within the applicable fund.

K. <u>Long-term Debt</u>

General Obligation Bonds and Certificate of Obligation Bonds issued for general government capital projects that are to be repaid from tax revenues of the City are recorded in the government-wide statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method in the proprietary fund and the government-wide financial statements. Bonds payable are reported net of the applicable bond premium or discount. In the governmental fund financial statements, issuance costs, as well as bond premiums and discounts, are recognized when incurred.

Certificate of Obligation Bonds have been issued to fund capital projects of the Proprietary Funds. Such bonds are to be repaid from the net revenues of the applicable Proprietary Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

L. Retirement Plans
The City has one retirement plan covering substantially all employees. It is the City's policy to record the costs for such plans on the accrual basis.

M. Fund Equity
In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

N. Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those statements.

O. Restricted Resources
When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as required.

P. Encumbrances
Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting—under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation—is utilized in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Q. Adopted Accounting Pronouncements
On September 30, 2009, the City adopted the guidance for subsequent events set forth under generally accepted accounting principles. The current guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. Specifically, the guidance set forth the period after the balance sheet date during which management of a reporting entity should

evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The current guidance for accounting for subsequent events provides largely the same guidance on subsequent events which previously existed only in auditing literature. The adoption of the new standard for accounting for subsequent events had no impact on the financial statements as management already followed a similar approach to the adoption of this standard. The City has evaluated subsequent events through March 2, 2010.

NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains the "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $544,616,541 difference are as follows:

Bonds payable	$521,750,000
Deferred loss on advanced refunding of bonds	(2,588,263)
Bond discount (to be amortized as interest expense)	(14,687)
Bond premiums (to be amortized over the life of the bonds)	12,487,027
Accrued interest payable	3,310,368
Grants payable	3,249,742
Arbitrage rebate payable	269,632
Compensated absences	6,152,722
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$544,616,541

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of the $56,030,883 difference are as follows:

Capital outlay	$61,014,077
Developers' contributions	29,431,744
Book value of capital assets disposed/transferred	(23,176)
Depreciation expense	(34,391,762)
Net adjustment to increase *net changes in fund balance – total governmental funds* to arrive at *changes in Net assets of governmental activities*	$56,030,883

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $22,041,991 difference are as follows:

Debt issued or incurred:	
Premium amortization	$ 2,144,041
Discount amortization	(2,069)
Bond issuance cost amortization	(279,270)
Amortization on loss of refunding of debt	(194,248)
Component unit note repayments	(2,455,000)
Principal repayments:	
Bonds	21,455,000
Sales tax grant payables	1,373,537
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$22,041,991

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $318,326 difference are as follows:

Decrease in accrued interest on bonds	$ 132,529
Decrease in rebatable arbitrage	257,703
Increase in compensated absences	(708,558)
Net adjustment to decrease *net changes in fund balance – total governmental funds* to arrive at *changes in net assets of governmental activities*	$(318,326)

NOTE 3. LEGAL COMPLIANCE – BUDGETS

Budgetary Information

Annual appropriated budgets are legally adopted for the General Fund, Debt Service Fund, Capital Projects Funds, and Special Revenue Funds. The legal level of authority is at the fund level. The annual budget is adopted using the budgetary basis of accounting. The budgetary basis of accounting differs from accounting principals generally accepted in the United States in that encumbrances are recorded as expenditures in the period encumbered and not when incurred. All annual appropriations lapse at fiscal year end. Project length financial plans are adopted for certain Capital Projects Funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to August 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to September 30, the budget is legally enacted through the passage of an ordinance.
4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary review is employed as a management control device during the year for the General Fund, Debt Service Fund, and Capital Projects Funds. Supplemental appropriations were made during the fiscal year, during the revised budget process.
6. The budget approved for the discretely presented component units follow similar approval procedures.
7. The budget approved for the Utility Fund and Environmental Services Fund follows similar approval procedures, but departs from generally accepted accounting principles by not including depreciation in the approved budget.

NOTE 4. DEPOSITS AND INVESTMENTS

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were insured up to $250,000 or collateralized as required by State statutes at September 30, 2009. As our depository bank participates in the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program (TLGP), all non-interest-bearing accounts are fully guaranteed by the FDIC through December 31, 2009. At year-end, the carrying amount of the City's demand deposits was a balance of $369,070 - bank balance, $1,526,644. The cash on hand carrying amount totaled $11,028. The carrying amount of the component unit's demand deposits was $19,630 - bank balance, $19,630. The bank balance for the primary government and the component unit's deposits and certificates of deposits was covered by collateral with a fair value of $41,387,872. The collateral is held in the City's name by the Federal Reserve Bank of New York and the Texas Independent Banker, agents of the City's financial institution.

Investments – State statutes, city policies, and city resolutions authorize the City's investments. The Director of Financial Services and the Assistant Director of Financial Services are authorized by the City Council to invest all available funds consistent with the investment policy. The City is authorized to invest in United States obligations or its agencies and instrumentalities, direct obligations of the State of Texas or its agencies and instrumentalities, other obligations backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, obligations of states, agencies, counties, cities, and other political subdivisions of any State having an investment rating of not less than "A" or its equivalent, fully collateralized repurchase agreements, certificates of deposit issued by a depository institution that has its main office or branch office in the State of Texas, money market mutual funds regulated by the Securities and Exchange Commission with a dollar weighted average portfolio maturity of 90 days of less, and local government investment pools organized and operating in compliance with the Inter-local Cooperation Act. As of September 30, 2009, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity Days
Primary Government		
General Fund		
Federal Agency Notes	$ 15,663,352	165
Certificates of Deposit	500,000	556
TexPool	3,118,741	43
TexStar	15,675,235	46
Bond Proceeds		
Federal Agency Notes	52,018,667	230
Certificates of Deposit	25,000,000	114
TexPool	8,419,713	43
TexStar	69,173,069	46
Other Funds		
Federal Agency Notes	12,128,800	292
Certificates of Deposit	11,600,000	176
TexPool	8,568,409	43
TexStar	9,598,488	46
Total Primary Government	$231,464,474	118

Investment Type	Fair Value	Weighted Average Maturity Days
Component Units		
Community Development		
Federal Agency Notes	$ 2,107,135	75
TexPool	8,547,876	43
TexStar	166,882	46
Economic Development		
Federal Agency Notes	1,984,512	179
Certificates of Deposit	8,400,000	182
TexPool	1,123,718	43
TexStar	2,863,403	46
Total Component Units	$ 25,193,526	42
Total Government	$256,658,000	111

Interest Rate Risk – In order to minimize risk of loss due to interest rate fluctuations, the City's Investment Policy states investment maturities will not exceed the anticipated cash flow requirement of the funds as follows:

- Operating Funds – The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity dates of each security and the maximum allowable maturity shall be two years.
- Bond Proceeds – The maximum maturity for all bond proceeds shall be three years.
- Bond Reserve Funds – Maturity limitation shall generally not exceed the call provision of the Bond Ordinance and shall not exceed the final maturity of the bond issue.
- Other Funds – Maximum maturity shall not exceed five years and each fund's weighted average life shall not exceed three years.

Credit Risk – In compliance with the City's Investment Policy, and in conjunction with state law, as of September 30, 2009, the City minimized credit risk losses by limiting investment to the safest types of securities, pre-qualifying investments through our asset management company, and diversifying the investment portfolio so that potential losses on individual securities were minimized. The City also invested in certificates of deposits at the local banks that maintain the demand deposits. The City's investments in U.S. Agency securities (FHLB, FNMA, FHLMC, and FFCB) are rated AAA by Standard & Poor's and Aaa by Moody's Investors Services. The U.S. Government indirectly guarantees these securities. The City's investments in local government investment pools (TexPool and TexStar) are in compliance with the Public Funds Investment Act and rated AAAm by Standard & Poors.

Concentration of Credit Risk – The City's formal investment policy does not address limitations to one particular issuer.

NOTE 5. RECEIVABLES

Receivables at September 30, 2009, for the government's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

Governmental	General	TIRZ #1	Capital Projects	Debt Service Fund	Other Governmental Funds	Total
Property tax	$ 489,454	$ -	$ -	$429,036	$ -	$ 918,490
Sales tax	3,113,279		-	-	-	3,113,279
Franchise tax	2,997,529		-	-	-	2,997,529
Occupancy tax	-		-	-	237,948	237,948
Mixed beverage tax	100,527		-	-	-	100,527
Accrued interest	211,348		211,621	-	7,620	430,589
Grants	-		-	-	121,830	121,830
Assessments	-		-	-	3,593,810	3,593,810
Other	1,676,478	266,667	7,460,307	-	38,189	9,441,641
Gross receivables	8,588,615	266,667	7,671,928	429,036	3,999,397	20,955,643
Less: allowance	(1,410,090)	-	-	(21,452)	-	(1,431,542)
Net receivables	$7,178,525	$266,667	$7,671,928	$407,584	$3,999,397	$19,524,101

Business-type Activities	Water and Sewer	Other Business-type Activities	Total
Utility Bills	$6,212,999	$ -	$6,212,999
Accrued interest	228,736	-	228,736
Other	770,316	734,446	1,504,762
Gross receivables	7,212,051	734,446	7,946,497
Less: allowance	(621,300)	-	(621,300)
Net Receivables	$6,590,751	$734,446	$7,325,197

Component Units	Community Development Corporation	Economic Development Corporation	Charitable Foundation	Total
Sales taxes	$1,556,640	$1,556,640	$ -	$3,113,280
Accrued interest	18,515	42,134	-	60,649
Gross receivables	1,575,155	1,598,774	-	3,173,929
Less: allowance	-	-	-	-
Net receivables	$1,575,155	$1,598,774	$ -	$3,173,929

The Proprietary Fund accounts receivable includes unbilled charges for services rendered at September 30, 2009.

Property taxes are levied on October 1 and are payable until February 1 without penalty. Property taxes attach as an enforceable lien on property as of February 1. No discounts are allowed for early payment. Penalty and interest are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased by 1% per month up to a total of 12%. Under state law, property taxes on real property constitute a lien on the property and cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of 20 years. Taxes applicable to personal property may be deemed uncollectible by the government. The government's current policy is to write off uncollectible personal property taxes after four years.

Notes Receivable City

The City periodically issues bonds on behalf of the Frisco Community Development Corporation and Frisco Economic Development Corporation to fund various projects of these entities. These entities are component units of the City. Each component unit has an agreement with the City to fund the principal and interest payments of the bonds; therefore, a note receivable is reported in the fund financial statements of the City from each component unit equal to the face amount of the bonds outstanding. At September 30, 2009, the balance of the note receivable from the Frisco Community Development Corporation was $45,515,000, and the balance of the note receivable from the Frisco Economic Development Corporation was $3,675,000 for a total of $49,190,000.

Notes Receivable Component Units

In March, 2007, the Frisco Economic Development Corporation entered into a promissory note agreement with a developer in order to provide a construction loan in the amount of $243,000 for improvements. Upon satisfactory completion of certain performance requirements, annual credits will be provided in the form of loan forgiveness for a maximum of $243,000 over a period of approximately 5 years. During FY2009, the performance documentation was not received and no credits were awarded to forgive the loan. The balance of the loan at September 30, 2009 was $213,000.

On December 19, 2008 the Frisco Economic Development Corporation entered into an Amended Performance Agreement and Promissory Note for $300,000 in property improvements. If the performance requirements are not met by December 31, 2011, the loan will be repaid at 5% interest. The note balance was $300,000 as of September 30, 2009.

On July 31, 2009 the Frisco Economic Development Corporation entered into a Performance Agreement and Promissory Note for up to a maximum of $525,000 for a sanitary sewer infrastructure improvement. Performance credits are to be applied as loan forgiveness. If the performance criteria is not met, the loan plus 5% interest is due on August 1, 2011. As of September 30, 2009, $417,525 had been provided.

In March 2006, the Frisco Community Development Corporation entered into an agreement to loan a developer $300,000 to purchase land. The interest rate on the note is 5.00%. Annual payments of $1 are due for a period of ten years, and an eleventh and final installment of all accrued and unpaid interest, together with principal is due on the tenth anniversary date. If the developer completes certain performance requirements, the entire balance of principal plus accrued interest will be forgiven on the due date of the eleventh installment or March 28, 2016 and it will only be recognized at the government-wide level. As of September 30, 2009, the note had a balance of $300,000 and accrued interest of $16,959.

NOTE 6. CAPITAL ASSETS

The following is a summary of changes in the capital assets during the fiscal year:

Governmental	Balance 9/30/2008	Additions	Retirements/ Transfers Other Deductions	Balance 9/30/2009
Capital assets, not being depreciated:				
Land	$ 218,182,198	$ 1,353,964	$ (3,780)	$ 219,532,382
Construction-in-progress	128,498,327	18,887,823	(55,145,892)	92,240,258
Total capital assets, not being depreciated	346,680,525	20,241,787	(55,149,672)	311,772,640
Capital assets, being depreciated:				
Machinery and equipment	32,002,241	2,974,507	(514,426)	34,462,322
Buildings and improvements	240,149,643	82,832,871	(6,109)	322,976,405
Improvements other than buildings	593,189,472	39,815,330	(262,895)	632,741,907
Total capital assets being depreciated	865,341,356	125,622,708	(783,430)	990,180,634
Less accumulated depreciated:				
Machinery and equipment	(15,154,885)	(3,398,165)	491,249	(18,061,801)
Buildings and improvements	(37,729,188)	(10,111,667)	-	(47,840,855)
Improvements other than Buildings	(130,157,136)	(20,881,930)	3	(151,039,063)
Total accumulated depreciation	(183,041,209)	(34,391,762)	491,252	(216,941,719)
Total capital assets, being depreciated, net	682,300,147	91,230,946	(292,178)	773,238,915
Governmental activities capital assets, net	$1,028,980,672	$111,472,733	$(55,441,850)	$1,085,011,555

Business-type Activities	Balance 9/30/2008	Additions	Retirements/ Transfers Other Deductions	Balance 9/30/2009
Capital assets, not being depreciated:				
Land	$ 8,012,155	$ 1,241,876	$ -	$ 9,254,031
Construction-in-progress	38,027,251	15,125,517	(19,462,937)	33,689,831
Total capital assets, not being depreciated	46,039,406	16,367,393	(19,462,937)	42,943,862
Capital assets, being depreciated:				
Machinery and equipment	4,718,504	110,468	(359,235)	4,469,737
Buildings and improvements	10,000,141	-	(38)	10,000,103
Improvements other than buildings	220,316,609	33,695,786	(331)	254,012,064
Total capital assets being depreciated	235,035,254	33,806,254	(359,604)	268,481,904
Less accumulated depreciated:				
Machinery and equipment	(2,654,883)	(545,421)	298,586	(2,901,718)
Buildings and improvements	(2,068,221)	(445,383)	-	(2,513,604)
Improvements other than Buildings	(53,857,240)	(7,375,259)	-	(61,232,499)
Total accumulated depreciation	(58,580,344)	(8,366,063)	298,586	(66,647,821)
Total capital assets, being depreciated, net	176,454,910	25,440,191	(61,018)	201,834,083
Business-type activities capital assets, net	$222,494,316	$41,807,584	$(19,523,955)	$244,777,945

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	$ 2,615,577
Public safety	4,362,632
Public works	19,170,132
Culture and recreation	8,243,421
Total depreciation expense governmental activities	$34,391,762
Business-type activities	
Water & sewer	$8,342,213
Environmental services	23,850
Total depreciation expense business-type activities	$8,366,063

Frisco Economic Development Corporation	Balance 9/30/2008	Additions	Retirements/ Transfers Other Deductions	Balance 9/30/2009
Capital assets, not being depreciated:				
Land	$19,922,109	$ -	$ -	$19,922,109
Construction-in-progress	8,216,395	824,891	-	9,041,286
Total capital assets not being depreciated	28,138,504	824,891	-	28,963,395
Capital assets being depreciated:				
Machinery and equipment	162,019	273,818	-	435,837
Buildings and improvements	101,588	-	-	101,588
Total capital assets being depreciated	263,607	273,818	-	537,425
Less: accumulated depreciation	(33,384)	(41,936)	-	(75,320)
Total capital assets, being depreciated, net	230,223	231,882	-	462,105
FEDC capital assets, net	$28,368,727	$1,056,773	$ -	$29,425,500

Frisco Community Development Corporation	Balance 9/30/2008	Additions	Retirements/ Transfers Other Deductions	Balance 9/30/2009
Capital assets, not being depreciated:				
Land	$35,281,074	$ 2,498	$ -	$35,283,572
Construction-in-progress	193,645	-	(193,645)	-
Total capital assets not being depreciated	35,474,719	2,498	(193,645)	35,283,572
Capital assets, being depreciated:				
Machinery and equipment	20,535	-	-	20,535
Buildings and improvements	6,158,832	-	-	6,158,832
Improvements other than buildings	18,376,220	193,645	-	18,569,865
Total capital assets being depreciated	24,555,587	193,645	-	24,749,232
Less: accumulated depreciation	(7,046,529)	(1,947,584)	-	(8,994,113)
Total capital assets being depreciated, net	17,509,058	(1,753,939)	-	15,755,119
FCDC capital assets, net	$52,983,777	$(1,751,441)	$(193,645)	$51,038,691

In addition to construction in progress, the City had active construction projects with commitments or binding contracts as of September 30, 2009. The construction commitments or binding contracts totaled $18,369,878 for the governmental capital assets; and $9,018,410 for the business-type activities;

NOTE 7. NOTES PAYABLE

The following schedule summarizes notes payable as of September 30, 2009:

Frisco Community Development Corporation	Balance 9/30/2008	Additions	Deletions	Balance 9/30/2009
Note payable to City	$48,082,069	$ -	$2,306,911	$45,775,158
Total	$48,082,069	$ -	$2,306,911	$45,775,158

Frisco Economic Development Corporation	Balance 9/30/2008	Additions	Deletions	Balance 9/30/2009
Note payable to City	$ 3,825,160	$ -	$ 205,134	$ 3,620,026
Note payable to bank	11,985,354	-	136,522	11,848,832
Total	$15,810,514	$ -	$ 341,656	$15,468,858

The City periodically issues bonds on behalf of the Community Development Corporation and Economic Development Corporation to fund various projects of these entities. These entities are component units of the City. Each component unit has an agreement with the City to fund the principal and interest payments of the bonds; therefore, a note payable is reported in the government wide financial statements of the component units to the City equal to the face amount of the bonds outstanding plus any bond premiums, discounts, and deferred loss from advance refunding of debt.

At September 30, 2009, the balance of the note payable to the City from the Community Development Corporation was $45,775,158. This includes $45,515,000 in the note balance, $502,595 of note premium, and $242,437 of deferred loss from advanced refunding of debt. The balance of the note payable to the City from the Economic Development Corporation was $3,620,026. This includes $3,675,000 in the note balance and $92,753 of premiums and $147,727 of deferred loss from advanced refunding of debt. At September 30, 2009, the total notes payable to the City from the component units was $49,395,184.

NOTE 8. LONG-TERM DEBT

General obligation bonds and certificates of obligation mature annually in varying amounts through 2033. The interest for these bonds are payable semi-annually with interest rates ranging from 3.25% to 7.375%.

During the year ended September 30, 2009, the following changes occurred in the long-term liabilities:

Governmental Activities	Balance 9/30/2008	Increases	Decreases	Balance 9/30/2009	Amounts due within one year
Compensated absences	$ 5,444,164	$4,977,021	$ 4,268,463	$ 6,152,722	$ 3,726,202
General obligation bonds	290,532,728	-	13,286,312	277,246,416	13,763,133
General obligation – refunding bonds	54,851,533	-	1,050,256	53,801,277	1,080,292
Certificates of obligation	209,652,540	-	9,066,156	200,586,384	10,140,479
Grants payable	4,623,279	-	1,373,537	3,249,742	1,510,891
Total governmental activities	$565,104,244	$4,977,021	$29,044,724	$541,036,541	$30,220,997

Business-type Activities	Balance 9/30/2008	Increases	Decreases	Balance 9/30/2009	Amounts due within one year
Compensated absences	$ 879,573	$ 591,997	$ 526,865	$ 944,705	$ 650,633
General obligation – refunding bonds	13,427,060		469,906	12,957,154	753,826
Certificates of obligation	116,935,452	-	5,169,663	111,765,789	5,369,701
General obligation refunding bonds Frisco MUD#1	767,400	-	82,096	685,304	80,892
Total business-type activities	132,009,485	591,997	6,248,530	126,352,952	6,855,052
Total primary government	$697,113,729	$5,569,018	$35,293,254	$667,389,493	$37,076,049

Component Units	Balance 9/30/2008	Increases	Decreases	Balance 9/30/2009	Amounts due within one year
Compensated absences	$ 78,186	$ 55,191	$ 37,388	$ 95,989	$ 60,358
Sales tax revenue bonds	10,773,999	2,020	-	10,776,019	-
Notes payable – bank	11,985,354	-	136,523	11,848,831	141,523
Notes payable – City	51,907,229	-	2,512,044	49,395,185	2,600,063
Grants payable	3,200,447	-	1,542,499	1,657,948	1,657,948
Total component units	$ 77,945,215	$ 57,211	$ 4,228,454	$ 73,773,972	$ 4,459,892

Debt service requirements of the general obligation bonds and certificates of obligation for the governmental activities for the years subsequent to September 30, 2009, are as follows:

Fiscal Year Ending September 30	Principal Requirements	Interest Requirements	Total Requirements
2010	$ 23,240,000	$ 25,240,436	$ 48,480,436
2011	24,595,000	24,150,854	48,745,854
2012	25,725,000	23,007,321	48,732,321
2013	26,930,000	21,747,627	48,677,627
2014	28,205,000	20,404,278	48,609,278
2015-2019	159,695,000	79,306,880	239,001,880
2020-2024	167,405,000	37,424,279	204,829,279
2025-2029	50,560,000	8,689,686	59,249,686
2030-2033	15,395,000	1,782,723	17,177,723
Total	521,750,000	241,754,084	763,504,084
Plus: Unamortized bond premium	12,487,027	-	12,487,227
Less: Unamortized (loss) on bond refunding	(2,588,263)	-	(2,288,263)
Unamortized bond discount	(14,687)	-	(14,687)
Net debt service requirements	$531,634,077	$241,754,084	$773,688,361

Debt service requirements of the general obligation bonds and certificates of obligation for the business-type activities for the years subsequent to September 30, 2009, are as follows:

Fiscal Year Ending September 30	Principal Requirements	Interest Requirements	Total Requirements
2010	$ 5,960,000	$ 5,691,634	$ 11,651,634
2011	6,230,000	5,424,696	11,654,696
2012	6,420,000	5,144,707	11,564,707
2013	6,715,000	4,848,335	11,563,335
2014	7,005,000	4,539,531	11,544,531
2015-2019	37,745,000	17,528,196	55,273,196
2020-2024	39,850,000	8,149,026	47,999,026
2025-2027	14,235,000	926,787	15,161,787
Total	124,160,000	52,252,912	176,412,912
Plus: Unamortized bond premium	1,828,544	-	1,828,544
Less: Unamortized (loss) on bond refunding	(580,297)	-	(580,297)
Net debt service requirements	$125,408,247	$52,252,912	$177,661,159

Debt service requirements of the revenue bonds and notes payable for the Economic Development Corporation component unit for the years subsequent to September 30, 2009, are as follows:

Fiscal Year Ending September 30	Principal Requirements	Interest Requirements	Total Requirements
2010	$ 360,000	$ 1,445,773	$ 1,805,773
2011	670,000	1,421,008	2,091,008
2012	705,000	1,386,678	2,091,678
2013	760,000	1,344,672	2,104,672
2014	11,867,740	1,015,569	12,883,309
2015-2019	3,690,000	3,052,750	6,742,750
2020-2024	3,565,000	1,982,560	5,547,560
2025-2029	3,805,000	917,438	4,722,438
2030	915,000	28,821	943,821
Total	26,337,740	12,595,269	38,933,009
Plus: Unamortized bond premium	92,753	-	92,753
Less: Unamortized (loss) on bond refunding	(161,635)	-	(161,635)
Unamortized bond discount	(23,981)	-	(23,981)
Net debt service requirements	$ 26,244,877	$12,595,269	$ 38,840,146

Debt service requirements of notes payable to the City for the Community Development Corporation component unit for the years subsequent to September 30, 2009, are as follows:

Fiscal Year Ending September 30	Principal Requirements	Interest Requirements	Total Requirements
2010	$ 2,330,000	$ 2,047,055	$ 4,377,055
2011	2,415,000	1,943,879	4,358,879
2012	2,500,000	1,837,406	4,337,406
2013	2,600,000	1,722,818	4,322,818
2014	2,710,000	1,602,381	4,312,381
2015-2019	15,045,000	5,955,571	21,000,571
2020-2024	15,330,000	2,395,121	17,725,121
2025-2026	2,585,000	92,612	2,677,612
Total	45,515,000	17,596,843	63,111,843
Plus: Unamortized note premium	502,595	-	502,595
Less: Unamortized (loss) on note refunding	(242,437)	-	(242,437)
Net debt service requirements	$ 45,775,158	$17,596,843	$ 63,372,001

NOTE 9. GRANTS PAYABLE

Stonebriar Mall Development Agreement
In order to induce the construction of a shopping mall within the city limits of the City of Frisco, Texas, the City, FCDC and FEDC agreed to pay a developer grants of money, not to exceed $24,224,000 and $5,000,000, for the *Mall Anchor grant* and *Supplemental Mall Anchor grant*, respectively. The grants represent one-half of the inducement cost or funds paid by the developer to induce Mall Anchors and Supplemental Mall Anchors to locate at the Mall. The mall developer defined specific stores as Mall Anchors and Supplemental Mall Anchors which includes Mall Anchor Successors and Supplemental Mall Anchor Successors that lease or purchase 75,000 or more square feet of retail space at the Mall. A Mall Anchor Successor and Supplemental Mall Anchor Successor are defined as an affiliate of a Mall Anchor or Supplemental Mall Anchor or any person that, as a result of reorganization, merger, consolidation, or sale of stock or assets acquires a Mall Anchor or Supplemental Mall Anchor store.

The grant established for the Mall Anchors shall terminate upon the earlier of March 1, 2011 or the date the grant is paid in full. The grant established for the Supplemental Mall Anchors shall terminate upon the earlier of March 1, 2013 or the date the grant is paid in full.

The grant bears simple interest at the rate of six percent per annum on any unpaid balance. The interest accumulation begins on the date that the mall opened for business or the date the mall developer provides satisfactory evidence of funds paid to the Mall Anchors and Supplemental Mall Anchors whichever is later. The first installment of the grant is due no later than six months following the date that the mall opened for business and each subsequent payment is due each three months thereafter except that quarterly payments are not due until such time as the City of Frisco has received the municipal sales tax proceeds from the State Comptroller.

Each quarterly payment for the Mall Anchor grant is computed as follows:
The City will pay an amount equal to 100 percent of the municipal sales tax received by the City from the Mall Anchors, not to exceed one percent of retail sales, and 25 percent of the municipal sales tax received from other mall tenants, not to exceed one-sixth of one percent of retail sales. The FCDC and FEDC will pay an amount equal to 100 percent of municipal sales tax received by the City from the Mall Anchors not to exceed one-half of one percent of retail sales and 25 percent of the municipal sales tax received from other mall tenants, not to exceed one-sixth of one percent of retail sales.

Each quarterly payment for the Supplemental Mall Anchor grant is computed as follows:
The City will pay an amount equal to 100 percent of municipal sales tax received from the Supplemental Mall Anchors not to exceed one percent of the retail sales.

The FCDC and FEDC will pay an amount equal to 100 percent of the municipal sales tax received from the Supplemental Mall Anchors not to exceed one-half of one percent of retail sales.

Each installment will be applied to accrued interest first and the remainder, if any, to principal. The Mall opened for business on August 4, 2000. The installment payments are dependent on sales tax collections.

The City, FCDC, and FEDC were originally obligated to pay the mall developer a total of $27,104,000 for one-half of the inducement cost paid to the Mall Anchors and Supplemental Mall Anchors. The carrying amount of the grant payable for the City, FCDC, and FEDC was $3,249,742, $828,974, and $828,974, respectively, at September 30, 2009.

An additional grant, which will be the third and final grant, will be paid beginning the first quarter after the final payment is made for the Mall Anchor grant. The grant payments will be based upon sales tax collected. There is no fixed payment amount for this grant. The obligation to pay the additional grant will terminate upon the earlier of March 1, 2011 or ten years from the date the first grant installment is made.

Each quarterly payment for the additional grant is computed as follows:
The City, FCDC, and FEDC will pay an amount equal to 25 percent of the sales tax received from the Mall Anchors and Other Mall Tenants, not to exceed one-sixth of one percent of the retail sales.

Retail Development Agreements
In order to promote economic development and diversity, increase employment, reduce unemployment and underemployment, expand commerce, and stimulate business and commercial activity in the State of Texas, Collin County, and the City of Frisco, Texas, the City, FCDC and FEDC agreed to pay sales tax grants to certain developers. These grants require the construction of a minimum square feet of retail space and obtaining certificates of occupancy for certain Anchor stores or major retailers within a specified time period, all of which have been met during the 2009 fiscal year.

Each sales tax grant is available for a period of ten years, beginning on the dates the certificates of occupancy were received. The City, FCDC and FEDC will each pay one-third of one-half of one percent (0.5%) of retail sales taxes collected by the City on retail sales generated by the Anchor stores or major retailers to the developers on a quarterly basis. Therefore, the installment payments are dependent on sales tax collections and there are no fixed repayment amounts with these grants. The City, FCDC, and FEDC each paid $342,640 during the current year for these sales tax grants for a total of $1,027,920.

Another sales tax grant agreement with a retail developer is for a period of ten years which began on August 3, 2005. The City pays one-half of one percent (0.5%) of the retail sales taxes collected by the City on retail sales generated by the store on a quarterly basis. Therefore, the installment payments are dependent on sales tax collections, and there is no fixed repayment amount with this grant. The City paid $405,807 during the current year for this sales tax grant.

A new retail development agreement was executed in December, 2005 for approximately 200,000 square feet of retail space, which opened for business during April, 2007. The developer was awarded an economic development grant in accordance with the agreement in the amount of one-half of one percent (0.5%) of retail sales generated for a period of ten years. The City paid $234,553 during the current year for this grant.

Medical Complex Agreements
The City has an agreement with a medical complex to rebate to the owner 100% of incremental City property taxes on the medical complex for ten years, subject to a $1,650,000 rebate cap. The City rebated $250,152 in property tax for the year ended September 30, 2009. The cumulative amount rebated through September 30, 2009 was $925,647.

During the year, the City entered into a property tax abatement agreement to reimburse a Medical Complex 50 percent of the real and personal property taxes paid by the Medical Complex for the tax years 2005, 2006, 2007, 2008, and 2009 in an amount not to exceed $850,000 cumulatively. The City rebated $191,041 in property taxes for the year ended September 30, 2009. The final cumulative amount rebated through September 30, 2009 was $850,000.

Planned Development Mixed Use Agreement
The City has an agreement for the development of thirty-six (36) acres into an urban mixed use community consisting of residential units, a 4-star hotel and a Class A high rise office. The developer will receive rebates of incremental City property taxes paid on the improvements. The maximum grant amount of rebates for the improvements has a principal balance of $3,000,000 bearing an interest rate of 4.75%, being repayable in three (3) annual installments of interest only and twenty-two (22) successive amortized annual installments of principal and interest. During the year ended September 30, 2009, the City rebated a total of $79,707 for the property tax increment payment for 2008.

NOTE 10. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the International City Management Association Retirement Corporation (ICMARC). All assets and income are held in trust for the exclusive benefit of participants and their beneficiaries, and the City has no fiduciary responsibilities over the plan; therefore, it is not reported in the financial statements of the City.

The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

NOTE 11. RETIREMENT SYSTEM

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 100 percent of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit, which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date.

At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. Members can retire at ages 60 and above with five or more years of service or with 20 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2008	Plan Year 2009
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions:

Under the state law governing TMRS the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

Annual Pension Cost

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

For the year ended September 30, 2009, the City's annual pension cost of $4,718,048 or 9.94% of the covered payroll of $47,471,242 for TMRS was equal to the City's required and actual contributions. The required contribution for fiscal year 2009 was determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

Valuation Date	12/31/2006	12/31/2007	12/31/2008
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	25 years; open period	30 years; closed period	29 years; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	NA	2.1%	2.1%

The annual pension cost and net pension obligation are as follows:

Annual Pension Costs

Annual Required Contribution (ARC)	$ 4,718,048
Annual Pension Cost (APC)	4,718,048
Contributions Made	(4,718,048)
Increase (decrease) in net pension obligation	-
Net Pension Obligation, beginning of year	-
Net Pension Obligation, end of year	$ -

Three-Year Trend Information for TMRS

Fiscal Year Funding	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/07	$ 3,535,833	100%	$0
9/30/08	$ 4,299,698	100%	$0
9/30/09	$ 4,718,048	100%	$0

Ten-year historical trend information presenting the TMRS progress in accumulating sufficient assets to pay benefits when due is presented in this report on pages 80-81.

Funding Status and Funding Progress:

As of December 31, 2008, the most recent actuarial valuation date, the plan was 64.9% funded. The actuarial accrued liability for benefits was $69,432,927, and the actuarial value of assets was $45,052,093 resulting in an unfunded actuarial accrued liability (UAAL) of $24,380,834. These amounts include the assets and actuarial liabilities related to both the Municipal Accumulation Fund (MAF) and the Employee Savings Fund (ESF) of the City. It should be noted that only the assets of the MAF can be used to pay for the MAF's actuarial liabilities, and if ESF assets and liabilities had been excluded, the reported funding status would be lower. The covered payroll (annual payroll of active employees covered by the plan) was $47,557,468 and the ratio of the UAAL to the covered payroll was 51.3%.

NOTE 12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The government pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to $1,000,000 per event, and $2,000,000 in aggregate. There were no significant reductions in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage for the past three years.

The City participates in a modified self-insurance program for Employee Benefits. Group medical benefits are administered by PEBC, Public Employee Benefits Corporation, operated through the North Central Texas Council of Governments. The City offers a traditional HMO plan with monthly premiums paid; and two PPO plans with payroll deductions set aside to cover the monthly claims. The annually negotiated stop loss provision for 2009 was $115,000 per occurrence.

The liabilities for insurance claims reported are based on GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. These liabilities include an estimate for incurred but not reported claims. The estimated claims incurred but not reported for September 2009 totaled $456,049. Changes in the liability amount during fiscal year 2009 were:

Claim Year	Liability Beginning of Year	Current Year Claims and Changes In Estimates	Claim Payments	Liability End of Year
2005 – Health Insurance	$ -	$ 960,342	$ 673,462	$286,880
2006 – Health Insurance	286,880	1,206,931	1,174,391	319,420
2007 – Health Insurance	319,420	2,074,276	1,793,010	600,686
2008 – Health Insurance	600,686	2,551,929	2,689,872	462,743
2009 – Health Insurance	462,743	2,056,175	2,062,869	456,049

NOTE 13. INTERFUND RECEIVABLES AND PAYABLES

All interfund receivables and payables are considered short-term and, at September 30, 2009, consisted of the following:

	Due From			
Due To	General Fund	Capital Projects	Non-major Governmental	Total
General fund	$ -	$ 25,087	$ 214,466	$ 239,523
TIRZ #1	-	-	378,737	378,737
Capital projects	5,759,441	-	4,113,862	9,873,303
Total	$5,759,441	$ 25,087	$ 4,707,065	$10,491,593

All balances resulted from the time lag between the dates that transactions are recorded in the accounting system and that payments between funds are made. Capital projects due from the general fund are for capital infrastructure funding and will be paid off as the projects payment applications are processed.

The City reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements.

	Transfer from					
Transfer to	General Fund	TIRZ #1	Capital Projects	Non-major Governmental	Environmental Services	Total
General Fund	$ -	$ -	$115,550	$ 225,797	$385,309	$ 726,656
TIRZ #1	-	-	-	1,561,737	-	1,561,737
Capital projects	-	-	-	2,550,000	-	2,550,000
Debt service	-	14,539,520	-	888,056	-	15,427,576
Non-major governmental	463,469	-	-	-	-	463,469
Total	$463,469	$14,539,520	$115,550	$5,225,590	$385,309	$20,729,438

The transfers include the following:

Transfer from fund	Transfer to fund	Amount
General fund:		
Hotel/Motel funding	Other Governmental Funds - Hotel/Motel Tax	$ 50,000
Arts funding	Other Governmental Funds –Arts	112,224
Grants matching funds	Other Governmental Funds – Grants	51,245
Capital Reserve funding	Other Governmental Funds – Capital Reserve Fund	250,000
TIRZ #1 fund:		
Debt service funding requirements	Debt Service	14,539,520
Other governmental funds:		
Debt service funding requirements	TIRZ #1	1,561,737
Debt service funding requirements	Capital Projects	2,550,000
Debt service funding requirements	Debt Service	888,056
General Funds Operations	General Fund	225,797
Capital Projects Fund:		
Operating capital	General Fund	115,550
Proprietary funds:		
Environmental Services	General Fund	385,309
Total		$20,729,438

NOTE 14. OPERATING LEASE COMMITMENTS

The City entered into a rental agreement in excess of one year during fiscal year 2007. The following commitments remain:

FY	At September 30
2010	$10,047

Rent paid under operating leases totaled approximately $14,512 for the year ended September 30, 2009.

NOTE 15. CONTINGENT LIABILITIES

The City has participated in a number of state and federally assisted grant programs. These programs are subject to program compliance audits and adjustments by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

During 1991, the North Texas Municipal Water District issued $2,600,000 in revenue bonds to be used for the construction of a water supply and distribution system benefiting the Cities of Frisco and McKinney. The outstanding principal of the revenue bonds at September 30, 2009, is $395,000. The City of Frisco and the City of McKinney have guaranteed the payment of the bond principal and interest, and certain related administrative costs. The City of Frisco is in compliance with this agreement at September 30, 2009.

In June 2006, the North Texas Municipal Water District issued $35,235,000 in revenue bonds, series 2006. This bond issue is for the purpose of constructing the Panther Creek Wastewater System benefiting the City of Frisco. The outstanding principal of the revenue bonds at September 30, 2009 is $31,735,000. The City of Frisco has guaranteed the payment of the bond principal and interest, and certain related administrative cost. The City of Frisco is in compliance with this agreement at September 30, 2009.

In February 2009, the North Texas Municipal Water District issued $20,210,000 in revenue bonds, series 2009. This bond issue is for the purpose of constructing an expansion to the Panther Creek Wastewater System benefiting the City of Frisco. The outstanding principal of the revenue bonds at September 30, 2009 is $20,210,000. The City of Frisco has guaranteed the payment of the bond principal and interest, and certain related administrative cost. The City of Frisco is in compliance with this agreement at September 30, 2009.

NOTE 16. LITIGATION

The City is party to several legal actions arising in the ordinary course of business. In the opinion of the City’s management, the City has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe that they will materially affect the City's operations or financial position.

NOTE 17. SUBSEQUENT EVENTS

In November 2009, the City of Frisco issued general obligation refunding bonds, series 2009, in the amount of $26,135,000. Proceeds from the sale of the bonds were used to refund a portion of the City’s outstanding debt.

Also, in November 2009, the City issued $3,950,000 in combination tax and limited surplus revenue certificates of obligation, series 2009. The proceeds from the sale of the certificates of obligation will be used to construct and equip a public parking garage adjacent to City Hall.

NOTE 18. PRIOR PERIOD ADJUSTMENTS

The October 1, 2008, governmental activities net assets balance has been restated in the amount of $2,285,525 to properly reflect the recognition of franchise fees earned but not received.